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December 29, 1973

Central Intelligence Bulletin

CONTENTS

ISRAEL: Ruling Labor Alignment expected to retain control of government in elections Monday. (Page 4)

UK: Continuing dispute with miners might force an early election. (Page 6)

CYPRUS-CZECHOSLOVAKIA: Nicosia's acquisition of new weapons will raise tensions on island. (Page 10)

JAPAN - NORTH KOREA - SOUTH KOREA: Tokyo announces loan to North Korea. (Page 12)

JAPAN: Leadership undertakes unusually active diplomatic schedule. (Page 13)

25X1

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Next 2 Page(s) In Document Exempt

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ISRAEL: Prime Minister Meir's ruling Labor Alignment is expected to receive a sufficiently large plurality in Monday's parliamentary elections to enable it to retain control of the government.

The main challenge to Mrs. Meir's continued rule comes from the rightist Likud--a three-party alliance formed last summer--which has been generally hostile toward compromise with the Arabs. The US Embassy believes that Likud may add six to eight seats to the 31 it now has in the Knesset. Israeli opinion polls, while frequently of questionable reliability, reflect a rise in public support for Likud and a shift away from the Labor Alignment. Although Likud is unlikely to win enough seats to form the main core of a new governing coalition replacing the Alignment, the possibility exists that it could make a sufficiently strong showing to press Mrs. Meir to take it into a "national unity" government. This would seriously reduce Israeli flexibility in negotiating a peace settlement. If Likud does better than generally expected, it might be able to win over the National Religious Party, now the Alignment's major coalition partner, and induce Defense Minister Dayan and his followers to break away from Mrs. Meir, placing her in a minority position.

The Alignment is almost certain to lose some of its 57 seats in the 120-member Knesset. The losses may be from five to eight seats, with the Alignment's coalition partners losing perhaps another three seats. While even a loss totaling 11 of the 77 Knesset seats now held by the government coalition would still allow Mrs. Meir to form a new government, her margin would be dangerously small and the negotiations to put together a majority would be made more difficult and protracted than usual in Israeli politics.

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The recent Arab-Israeli war and its aftermath have created greater uncertainties about this election than any other in modern Israeli history. Recent Israeli polls indicate that large numbers of voters--40 percent in one recent poll--are still undecided.

Dec 29, 1973

Central Intelligence Bulletin

5

UK: The continuing deadlock between the miners and the government, which could result in a major drop in industrial production and rising unemployment, may cause Prime Minister Heath to call an early election.

Several rounds of talks between the coal miners and the National Coal Board this week have not resolved the dispute over wage increases. As a result, the miners' overtime ban, which has already brought a decline in coal production of some 30 percent, is expected to continue into the new year.

The discussions are scheduled to resume next Wednesday when the two sides hope to be able to submit a proposal to the government pay board that would be within the guidelines of the government's counterinflation program. Even if the government accepts this proposal, the miners' executive must then submit it to a vote by the rank and file. This procedure could take several weeks, and the outcome is unclear. Meanwhile, the electric power engineers have returned to normal working schedules, but the locomotive engineers are continuing their slowdown.

The failure to resolve the mine dispute this week means that the three-day work week for most industries, announced earlier this month by Heath, will begin next Monday. The resulting cutback in production will prevent achievement of economic growth goals and, reversing the recent trend, lead to increased unemployment. The Department of Employment recently announced that 400,000 workers had been laid off because of the fuel crisis, and the British Steel Corporation has said it may have to lay off 100,000 employees because of the coal shortage. The shortened work week will pose planning problems for industry, and management is not certain it can meet contract obligations or fulfill current labor agreements that guarantee a five-day work week.

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Faced with these economic problems as well as the likelihood of rising balance-of-payments deficits as world commodity and oil prices continue to increase, Heath may decide to call an election before the situation becomes much more severe. An early election, however, would involve certain risks. There is no clear indication that the electorate would side with the present government and, even if the government should win, there would be no guarantee that the unions would then agree to settle the disputes. Neither the ruling Tories nor the opposition Labor Party--which has no apparent solution to the problem--favors holding an election now, but Heath may decide he has little choice if the economy continues to deteriorate.

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CYPRUS-CZECHOSLOVAKIA: Nicosia's reported acquisition of Czech weapons will increase tensions on the island and could lead to unilateral action by Ankara.

The arms are probably destined for use by the Tactical Reserve Units, a force of about 500 men under the command of President Makarios. The force was created in early 1972 as a counterforce to the Cypriot National Guard, which is under the control of Greek officers whose loyalty is suspect by Makarios. The reserve units have been equipped with Czech arms received under an earlier accord with Czechoslovakia.

In late November, Ankara threatened to deliver weapons to the Turkish Cypriots, should Makarios go through with reported plans to bring new arms into the island. Ankara fears that ultimately the weapons would be turned against Turkish Cypriots should there be another intercommunal confrontation, and is sure to use its influence to get Athens and the UN to try to halt further shipments.

The Cypriot press on December 18 reported that the arrival of Czech weapons was imminent, but the government denied it. In addition, Makarios told the US ambassador that he knows nothing about a Czech arms deal.

Dec 29, 1973

Central Intelligence Bulletin

10

25X1

Approved For Release 2004/01/05 : CIA-RDP79T00975A025900100001-3

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JAPAN - NORTH KOREA - SOUTH KOREA: Tokyo has publicly announced approval of a \$1-million Export-Import Bank loan to North Korea. The credit is to finance the purchase of a towel manufacturing plant. This is the first application of Tokyo's announced policy of granting such credits to North Korea on a case-by-case basis and is the latest move in the gradual improvement in Japanese - North Korean economic relations. Japan recently sold a 3.6-million ton cement plant to North Korea, one of the largest transactions between the two countries, and trade is running at about 25 percent ahead of this time last year.

Seoul does not have enough leverage with Japan to reverse this trend. The Kim Tae-chung kidnaping has weakened Seoul's political influence in Tokyo. It may also have been partly responsible for the reduction in Japanese aid to South Korea announced at this week's ministerial conference, although Tokyo pointed to its own economic problems as a reason for the reduction. The Japanese pledge was far short of Seoul's request and below last year's aid level. Tokyo left open the possibility that additional assistance might be granted if the Japanese economic picture improves. [REDACTED]

JAPAN: With the Diet in recess until January 21, Japanese leaders are undertaking an unusually active diplomatic schedule.

Six top governmental leaders will soon travel overseas on a variety of missions. Four of these missions are closely related to Japan's continuing concern over Persian Gulf oil supplies: International Trade and Industry Minister Nakasone will visit Iran, Iraq, and the UK; Lower House Speaker Maeo will go to Egypt and Kuwait; and former foreign minister Kosaka will stop at several Arab states missed by Deputy Prime Minister Miki during his recent swing through the Middle East. Miki himself plans to visit Washington on about January 7 for discussions on the Middle East and related issues. He will also meet with UN Secretary General Waldheim in New York.

Prime Minister Tanaka is scheduled to tour five Southeast Asian nations in a trip not directly related to the energy crisis. It was planned as an effort to improve Tanaka's domestic standing and, at least as important, to counter growing regional criticism of the expanding Japanese economic presence, particularly in Indonesia.

Foreign Minister Ohira will go to Peking, apparently at Chinese request, for the formal signature of a recently concluded trade agreement. Both Tokyo and Peking probably see the meeting as an opportunity to advance Sino-Japanese relations in general and, in particular, to break the impasse over a civil aviation agreement. The Japanese may also wish to explain anticipated cutbacks in exports to China--chemical fertilizer, for example--in terms of their current oil shortage, and perhaps to discuss bilateral investigation of China's Po Hai Gulf oil deposits.

[REDACTED]

Dec 29, 1973

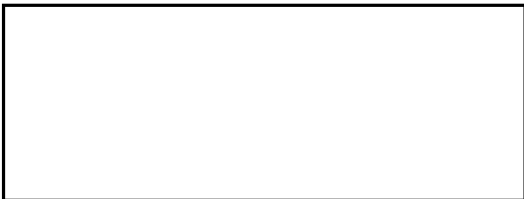
Central Intelligence Bulletin

13

25X1

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